NINTENDO COMPANY LIMITED

v.

CENTRONICS SYSTEMS PTY. LIMITED AND ORS

HIGH COURT, AUSTRALIA
MASON CJ, BRENNAN, DEANE, DAWSON,
TOOHEY, GAUDRON & McHUGH JJ
[F.C. 94/027]
16 JUNE 1994

STATUTORY INTERPRETATION: *Literal rule - Whether results in unjust, irrational and inconvenient result - Legislative intent -Whether judicial reframing possible - Whether importation before commencement of Act rendered subsequent sale in breach of Act lawful - Section 7 Circuits Layout Act 1989.*

STATUTORY INTERPRETATION: *Meaning of "the owner" - Whether specific designation of a particular person or a non-specific reference to a possessor of the attributes which constitute ownership of the relevant right - Whether alleged infringer knew or ought reasonably to have known that he or she was not licensed by the owner - Legislative intent - Section 19(3) Circuits Layout Act 1989.*

STATUTORY INTERPRETATION: *Whether infringer innocently acquired and dealt with unauthorised integrated circuit - Whether infringer had knowledge, actual or constructive, that rights subsisted in the layout - Sections 20(1) & 20(2) Circuits Layout Act 1989.*

PRACTICE & PROCEDURE: *Formal admissions in pleadings - Mistake - Inability to withdraw at late stage - Whether can be taken into account on order for damages and profits.*

The appellant, Nintendo, instituted proceedings against the respondent for infringement of intellectual property rights including injunctive relief and damages for infringements under the Circuit Layouts Act 1989 of its rights in an electronic circuit used in video game machines manufactured and marketed by the appellant. The respondent contended that since the importation of the video game machines ("Spica") from Taiwan took place before the commencement of the Act on 1 October 1990, the sale by the respondent after that date was not an infringement and therefore the appellant could not sue as s. 7 provided that no action lies under Part III for any act done before the date of commencement of the Act in relation to the layout. The respondent also argued that the appellant had failed to prove that the respondent was a person who knew or ought reasonably to have known that he or she was not licensed by the owner of the right to commercially exploit the layout. The respondent argued further that the sale of the video game machines amounted to innocent commercial exploitation and the respondent had no knowledge, actual or constructive that the layout rights subsisted. By its defence, the respondent had formally admitted that it was not licensed by the appellant.

The learned trial Judge upheld the appellant's claims and an appeal by the respondent to the Federal Court was allowed. The appellant appealed to the High Court of Australia.

Held:

[1] On the literal construction of the provision of the Act, the act of selling a circuit layout is an independant and complete act of commercial exploitation. Of itself, it constitutes commercial exploitation of the layout regardless of whether or not there has been a prior act

of importation. The appellant's action is not in respect of importation but in respect of commercial exploitation of the layout involved in the sale of Spica from 1 October 1990 to 5 December 1990 when proceedings were commenced. Interpreting an action for infringement of those sales as action in respect of earlier and completed acts of importation would mean construing the words to a meaning which the words used by Parliament simply do not sustain. Any such construction would amount to judicial reframing of the section. Therefore s. 7 did not preclude the appellant's suit for infringement.

[2] The words "the owner" in s. 19(3) should be from the non-specific construction i.e. a non-specific reference to the possessor of the attributes which constitute ownership of the relevant right instead of as a specific designation of a particular person. It was the legislative intent that s. 19(3)'s requirement of actual or constructive knowledge should provide a significant degree of protection of the alleged infringer. That requirement was not satisfied in the present case by the mere fact that the respondent knew at the time of the alleged infringement, that it was not licensed by the appellant to exploit the layout commercially in Australia. On the facts, the respondent had actual or constructive knowledge that the Nintendo layout existed and that the appellant was the owner of the exclusive rights.

[3] The acts of alleged infringement relied upon by the appellant all occurred after Centronics possessed actual or constructive knowledge that rights subsisted in the layout. The respondent had also neither paid nor acknowledged liability to pay equitable remuneration to the appellant for innocent dealing. Therefore, the respondent could not succeed on that defence.

[4] It was, as conceded, too late to withdraw the formal admission of the respondent on the basis of which the case had been determined in the Courts below. As to the possible mistake in the admission, it may be taken into account in framing the order for damages or an account of profits to prevent double payment.

[Appeal allowed]

Cases referred to:

Centronics Systems Pty, Ltd. v. Nintendo Co. Ltd. [1992] 111 ALR 13 ***(refd)***

Avel Pty. Ltd. v. Wells [1992] 108 ALR 97 ***(refd)***

Cooper Brookes (Wollongong) Pty. Ltd. v. Federal Commissioner of Taxation ([1981] 147 CLR 297 at 320-321 per Mason and Wilson JJ ***(refd)***

Esber v. The Commonwealth [1992] 174 CLR 430 at 440 ***(refd)***

Attorney-General (Cth) v. Schmidt [1961] 105 CLR 361 at 371-372 per Dixon CJ ***(refd)***

Mutual Pools & Staff Pty. Ltd. v. The Commonwealth [1994] 68 ALJR 216 at 221, 225, 230, 248-249; 119 ALR 577 at 586-587, 592, 599, 625-626 ***(refd)***

Ex parte Lawler [1994] 68 ALJR 289 at 290-291, 292, 295, 301-302; 119 ALR 655 at 657-658, 659, 663, 673 ***(refd)***

Health Insurance Commission v. Peverill [1994] 68 ALJR 251 at 266; 119 ALR 675 at 698 ***(refd)***

Georgiadis v. AOTC [1994] 68 ALJR 272 at 275; 119 ALR 629 at 635 ***(refd)***

Mickelberg v. The Queen [1989] 167 CLR 259 ***(refd)***

Jenkins v. The Commonwealth [1947] 74 CLR 400 at 406 ***(refd)***

McClintock v. The Commonwealth [1947] 75 CLR 1 at 23, 36 ***(refd)***

P.J. Magennis Pty. Ltd. v. The Commonwealth [1949] 80 CLR 382 at 401-402, 411, 423 ***(refd)***

Trade Practices Commission v. Tooth & Co. Ltd. [1979] 142 CLR 397 at 427, 451-452 ***(refd)***

Australian Tape Manufacturers Association Ltd. v. The Commonwealth [1993] 176 CLR 480 at 510-511, 526 ***(refd)***

W.H. Blakeley & Co. Pty. Ltd. v. The Commonwealth [1953] 87 CLR 501 ***(refd)***

Legislation referred to:
Circuit Layouts Act 1989, ss. 5, 19
Copyright Act 1968
Designs Act 1906 (Cth), s. 49
Law and Justice Legislation Amendment Act 1990 (Cth), s. 41
Semiconductor Chip Protection Act 1984 ss. 901-14 (US)
Circuit Layout of a Semiconductor Integrated Circuit, Law No. 43, 1985, (Japan)
Design Right (Semiconductor Topographies) Regulations 1989, (UK)

Other sources referred to:
Intellectual Property in Australia: Copyright Law, (1988) at par. 9. 20. 380
"Introductory Note to Treaty on Intellectual Property in Respect of Integrated Circuits" Abbott, (1989) 28
International Legal Materials 1477 at 1477

For the appellant - Purves Clarke Richards
For the respondents - Xerri Rubinstein & Co.

JUDGMENT

Mason CJ, Brennan, Deane, Toohey, Gaudron & McHugh JJ:

The appellant, Nintendo Company Limited ("Nintendo"), instituted proceedings in the Federal Court of Australia against the respondents, Centronics Systems Pty. Limited ("Centronics") and the three directors of that company, claiming infringement of a variety of intellectual property rights. The parties resolved claims of trade mark and copyright infringement leaving unresolved the claim giving rise to the present appeal, namely, a claim by Nintendo for injunctive relief and damages for alleged infringement of its rights under the Circuit Layouts Act 1989 (Cth) ("the Act") in an "original circuit layout" ("the Nintendo layout"). The Nintendo layout is a plan showing the location of the components of a complex electronic circuit which, when incorporated in a Read Only Memory chip, is used in video game machines manufactured and marketed by Nintendo.

The learned trial Judge (Sweeney J) upheld Nintendo's claim of infringement of its rights in the Nintendo layout. His Honour granted injunctive and ancillary relief, leaving the question of damages for subsequent determination. Centronics and the three directors appealed to the Full Court of the Federal Court. The Full Court (Northrop, Beaumont and Burchett JJ) upheld the appeal, set aside the relevant orders of the trial Judge and ordered that the proceedings in the Federal Court be dismissed in so far as they related to the circuit layout claim (*Centronics Systems Pty, Ltd. v. Nintendo Co. Ltd.* [1992] 111 ALR 13). The present appeal is by Nintendo from those orders of the Full Court. For their part, Centronics and the three directors have, by notice of contention, raised additional grounds for affirming the decision of the Full Court. It is conceded by the three directors that the acts of Centronics upon which Nintendo relies were authorised by them and no distinction has been drawn between the actual or constructive knowledge of the various respondents. That being so, the appeal to this Court has been argued on the basis that it is common ground that the three directors are themselves liable for infringement if those acts of Centronics constituted infringement of Nintendo's rights under the Act (See s. 19). In these circumstances, it is unnecessary to deal with the position or liability of the three directors separately from that of Centronics.

While the Act received the Royal Assent on 22 May 1989, its substantive provisions did not, however, commence until 1 October 1990. It was enacted in anticipation of the finalisation of the terms of the Treaty on Intellectual Property in Respect of Integrated Circuits (World

Intellectual Property Organization, 26 May 1989). ("the International Treaty") and on the basis that it was "consistent with the major elements" (See, Commonwealth, House of Representatives, Parliamentary Debates (Hansard), 3 November 1988, at 2397) of the then published draft of that Treaty. It introduced a scheme, substantially based on overseas models (See Semiconductor Chip Protection Act 1984 (US) (17 USC ss. 901-14); Act Concerning the Circuit Layout of a Semiconductor Integrated Circuit (Law No. 43, 1985) (Japan); Directive on the legal protection of topographies of semiconductor products 87/54/EEC, [1987] OJ L24/36 (European Community); Design Right (Semiconductor Topographies) Regulations 1989 (UK).) for the recognition and protection of intellectual property rights, described as "EL rights" (Apparently an abbreviation of "Eligible Layout rights"), in certain "circuit layouts". That scheme replaced the protection, apparently seen as "inappropriate and uncertain" (Commonwealth, House of Representatives, Parliamentary Debates (Hansard), 3 November 1988, at 2397, and see, generally, Lahore, **Intellectual Property in Australia: Copyright Law,** (1988) at par. 9. 20. 380; Abbott, **"Introductory Note to Treaty on Intellectual Property in Respect of Integrated Circuits"**, (1989) 28 **International Legal Materials** 1477 at 1477-1478.), which was previously available in respect of circuit layouts under the general provisions of the Copyright Act 1968 (Cth) and the Designs Act 1906 (Cth) (See s. 49 and the Schedule and, generally, *Avel Pty. Ltd. v. Wells* [1992] 108 ALR 97 at 100-101.). For the purposes of the scheme introduced by the Act, a "circuit layout" was defined at the time of the institution of these proceedings (See s. 5 of the 1989 Act. This definition was subsequently amended by s. 41 of the Law and Justice Legislation Amendment Act 1990 (Cth), assented to on 21 December 1990.) as meaning "a plan comprising a two-dimensional representation, fixed in any material form, of the three-dimensional location of the active and passive elements and interconnections making up an integrated circuit". An "integrated circuit" is defined (s. 5.) as meaning "a circuit, whether in a final form or an intermediate form, the purpose, or one of the purposes, of which is to perform an electronic function, being a circuit in which the active and passive elements, and any of the interconnections, are integrally formed in or on a piece of material". A "circuit layout" is an "eligible layout" for the purposes of the Act if it is an "original circuit layout" which satisfies any one of a number of requirements as to the identity of its "maker" or as to the country in which it was first commercially exploited (See, *ibid*., definitions of "eligible layout", "eligible person" and "eligible foreign country".).

Part II of the Act (ss. 16-25 inclusive) creates and defines the EL rights of an owner of an eligible layout. Section 16 provides that the person who makes an eligible layout or, in certain circumstances, the employer of that person is the first owner of the EL rights in it. Section 17 provides that the owner of those EL rights has, during a "protection period" of at least ten years from the day on which the layout was made (See *ibid*., definition of "protection period") exclusive rights:

(a) to copy the layout, directly or indirectly, in a material form;

(b) to make an integrated circuit in accordance with the layout or a copy of the layout;

(c) to exploit the layout commercially in Australia.

By its amended statement of defence, Centronics admitted that, at material times, Nintendo had been and was "the owner, within the meaning of s. 16 .., of EL rights in an original circuit layout". It is common ground that the layout referred to in that admission is the Nintendo layout. The admission necessarily involved an acknowledgment that the Nintendo layout was an "eligible layout" for the purposes of the Act. Its effect was to admit that Nintendo, as owner of EL rights in the Nintendo layout, had, after the commencement of the substantive provisions of the Act on 1 October 1990 and "during the protection period of

the layout" (which has not expired), the "exclusive rights" which s. 17 of the Act confers on the "owner of the EL rights in an eligible layout". Nintendo's claim in the present case relates to the exclusive right conferred by s. 17(c), namely, the exclusive right "to exploit the layout commercially in Australia".

Section 19(3) of the Act provides:

> Subject to this Act, the EL right in an eligible layout, being the right referred to in paragraph 17 (c), is infringed by a person who, during the protection period of the layout, without the licence of the owner, commercially exploits, or authorises the commercial exploitation of, the layout in Australia if the person knows or ought reasonably to know, that he or she is not licensed by the owner of that right to do so.

That provision must be read with s. 8(1) and s. 13(c) whose combined effect is that, for the purposes of the Act, a circuit layout shall be taken to have been commercially exploited if (among a number of things) an integrated circuit made in accordance with the layout, or with a substantial part thereof, or a thing in which the integrated circuit is incorporated, is sold or offered or exposed for sale.

During the period between the commencement of the substantive provisions of the Act and the institution of the present proceedings on 5 December 1990, Centronics sold (and offered and exposed for sale) in Australia video game machines, known as Spica Entertainment Units, which contained a silicon ROM chip incorporating an integrated circuit ("the Spica circuit"). The trial Judge found, and it is now common ground, that the Spica circuit was made in accordance with the whole or a substantial part of the Nintendo layout. The effect of s. 8(1) of the Act in those circumstances is that the sale and the offering or exposing for sale of the Spica Entertainment Units containing the Spica circuit constituted commercial exploitation of Nintendo's layout in Australia by Centronics. By its amended statement of defence, Centronics admitted that it was not licensed by Nintendo. It follows that the *prima facie* effect of formal admissions and the substance of what is now common ground is that the sale and the offering or exposing for sale of the Spica Entertainment Units constituted infringement of Nintendo's EL rights in the Nintendo layout under s. 19(3) of the Act if, but only if, that sub-section's requirement of actual or constructive knowledge was satisfied. Centronics contends that the question whether that requirement was satisfied has never been properly addressed in the Courts below and, when properly addressed, should be answered in the negative. Centronics also contends that the effect of other provisions of the Act is to preclude infringement in the circumstances of the present case. It is also submitted on its behalf that the present action for infringement of Nintendo's EL rights in the Nintendo layout, even if otherwise well founded, is barred by s. 7 of the Act. Finally, Centronics calls in aid the requirement of "just terms" which is contained in s. 51 (xxxi) of the Constitution. The submission based on s. 7 of the Act was not raised before the trial Judge. It emerged in the course of argument in the Full Court of the Federal Court where it was upheld by Beaumont and Burchett JJ in their joint judgment. It is convenient to turn at once to a consideration of it.

Section 7 of the Act

The proceedings in the present case were brought pursuant to s. 27(1) which is in Pt III of the Act and which states that, subject to the Act, "the owner of EL rights may bring an action for an infringement of those rights". Under s. 27(2), the relief that a Court may grant in such an action "includes an injunction ... and either damages or an account of profits". Section 7 of the Act reads:

> This Act applies in relation to a circuit layout, whether made before or after the commencement of Part II, but an action does not lie under Part III in respect of any act done before that commencement in relation to the layout, a copy of the layout, or an integrated circuit made in accordance with the layout.

It is submitted by Centronics that the effect of the second limb of s. 7 is that the present action pursuant to s. 27(3), which is obviously an action under Pt III, does not lie in the circumstances of the present case. The basis of that submission is that, while the acts of selling (and offering or exposing for sale) the Spica Entertainment Units upon which Nintendo relies were done after the commencement of Pt II on 1 October 1990, those Units had been imported by Centronics from Taiwan, for the purpose of sale in Australia, some ten months before that date.

In the Full Court of the Federal Court, Beaumont and Burchett JJ expressed the view that the words of the second limb of s. 7 should be "given a wide meaning" so that, where goods have been imported before the commencement of Pt II, "no action lies under Pt III, not only for the importation of the subject goods, but also for any other conduct connected or related to that importation" (*Centronics Systems Pty. Ltd. v. Nintendo Co. Ltd.* [1992] 111 ALR at 57-58). The effect of that construction was that, in a case such as the present where the pre-commencement importation of the relevant goods had been for the purpose of sale, the second limb of s. 7 precluded an action for infringement based on the post-commencement sale or offering or exposing for sale of the imported goods for the reason that "there is a sufficient connection or relation between the importation of the goods and their subsequent sale" (*ibid*. at 58). Their Honours recognised that that construction might be seen as involving a rejection of "the literal reading of the statute". Nonetheless, they considered that it was justified by the need to avoid what would, in their view, otherwise be "an unjust, irrational, and inconvenient result", namely "that goods could be lawfully imported for sale but not lawfully sold although imported for that very purpose" (*ibid*. at 57).

In support of that wide construction of the second limb of s. 7, Beaumont and Burchett JJ pointed to the width of the words "in respect of". They called in aid comments in *Cooper Brookes (Wollongong) Pty. Ltd. v. Federal Commissioner of Taxation* ([1981] 147 CLR 297 at 320-321 per Mason and Wilson JJ) to the effect that an otherwise "capricious" result can justify departure from the ordinary grammatical sense of the language used by the legislature provided that that language is not "intractable" ([1992] 111 ALR at 57.) They also relied upon the general rule of construction that legislation is presumed not to interfere adversely with vested proprietary interests. In that regard, their Honours commented that "[i]f Nintendo's contentions are upheld, goods that were lawfully imported for sale will be sterilised in terms of trade by virtue of a statute coming into operation 10 months after their importation." (*ibid.* at 58.) There is obvious force in the considerations which Beaumont and Burchett JJ identified. However, they do not, in our view, suffice to displace what we see as the unambiguous effect of the words which the Parliament has seen fit to use.

In defining what constitutes commercial exploitation for the purposes of the Act, s. 8(1) identifies three distinct categories of conduct, namely, distribution by way of trade (par. (a)), offering or exposing for distribution by way of trade (par. (b)) and importation for the purpose of distribution by way of trade (par. (c)). The sub-section reads:

> For the purposes of this Act, a circuit layout shall be taken to have been commercially exploited if the layout, a copy of the layout, or an integrated circuit made in accordance with the layout (whether or not the integrated circuit is incorporated in another thing) is:
>
> (a) sold, let for hire or otherwise distributed by way of trade;

(b) offered or exposed for sale or hire, or other distribution by way of trade; or

(c) imported for the purpose of sale, letting for hire, or other distribution by way of trade.

As a matter of language, the clear effect of those words is that the act of selling (references to sale in the context of s. 8(1) in these reasons for judgment include offering or exposing for sale) a circuit layout, a copy of a circuit layout or an integrated circuit made in accordance with a circuit layout (or something incorporating such an integrated circuit) is an independent and complete act of commercial exploitation. Of itself, it constitutes commercial exploitation of the layout regardless of whether or not there has been a prior act of importation.

The primary operation of s. 7 is to provide expressly that the Act applies in relation to a circuit layout whether made before or after the commencement of its substantive provisions on 1 October 1990. The qualifying or second limb of the section operates to make explicit what would otherwise be implicit, namely, that the Act does not confer rights of action in respect of things done before that date. Accordingly, in the circumstances of the present case, an action under Pt III would not lie in respect of the importation of the Spica Entertainment Units which was effected before 1 October 1990. However, Nintendo's present action is not in respect of that importation. It is an action in respect of the commercial exploitation of the Nintendo layout involved in the sale of the Spica Entertainment Units during the period between 1 October 1990 and the commencement of proceedings on 5 December 1990, that is to say, during a period commencing some ten months after their importation. In the context of s. 8(1)'s unambiguous identification of an act of sale as an independent and complete act of commercial exploitation regardless of whether there has or has not been a prior importation, an action for infringement based exclusively on those sales cannot, for the purposes of s. 7, properly be seen as an action "in respect of" the earlier and completed acts of importation unless the words "in respect of any act done before" are construed as meaning "in respect of any act being part of a series of related acts which commenced before". In our view, that is a meaning which the words used by the Parliament simply do not sustain.

Moreover, the reasons advanced for that expansive construction of the words of s. 7 are, upon closer analysis, far from compelling. For one thing, as has been indicated, the Act removed, as from the commencement of its substantive provisions, whatever protection the Copyright Act or the Designs Act respectively afforded a "circuit layout" or "an integrated circuit, or part of an integrated circuit" (See the Act, s. 49 and the Schedule.) It is unlikely that it would have been the legislature's intent to preclude an action for infringement under Pt III of the Act in respect of subsequent conduct in relation to already imported goods regardless of whether that subsequent conduct would have founded proceedings under those other Acts. For another thing, the argument that such a forced construction of the words of s. 7 is necessary to avoid an unjust "sterilisation" of property which had been lawfully imported into Australia prior to the commencement of the Act would, to be consistent, require that the words of s. 7 be somehow construed as precluding an action under Pt III in respect of any dealing with any goods at all which were lawfully owned at that date since there is no reason in justice or common sense why the person who lawfully imported goods should be placed in a privileged position *vis-a-vis* the person who lawfully acquired them locally. Such a construction of s. 7 would effectively involve a judicial reframing of the section. Even so, it would be ineffective to completely avoid "sterilisation" of such goods since any subsequent purchaser of them would be unable to deal commercially with them in Australia unless he or she obtained a licence from the owner of the EL rights in the layout or came within

one of the Act's other protective provisions. Finally, the fact that a period of more than sixteen months was permitted to expire between the enactment of the Act and the commencement of its substantive provisions goes a long way towards removing the consideration of practical injustice to which their Honours adverted. In that regard, the fact that the subject goods were imported more than six months after the enactment of the Act would seem to us to be as significant as the fact that they were imported some ten months before the Act's practical commencement.

It follows that the second limb of s. 7 of the Act did not preclude Nintendo's action for infringement of its EL rights in the Nintendo layout. It is unnecessary to consider a further argument advanced on behalf of Nintendo to the effect that Beaumont and Burchett JJ should not have based their decision on s. 7 of the Act in circumstances where that section had not been relied upon before or by the learned trial Judge or raised in the notice of appeal to the Full Court of the Federal Court.

Section 19(3) of the Act

As has been seen, Nintendo's claim of infringement of its EL rights is based upon s. 19(3) of the Act which provides that the EL right referred to in par. (c) of s. 17 (i.e the exclusive right to exploit the layout commercially in Australia) in a protected eligible layout is infringed by unauthorised commercial exploitation of the layout by a person who "knows or ought reasonably to know, that he or she is not licensed by the owner of that right to do so". It is common ground that Nintendo bore the onus of establishing that Centronics knew or ought reasonably to have known that it was "not licensed by the owner of [the EL] right". Centronics has submitted, at all stages of the proceedings, that Nintendo failed to discharge that onus.

At first instance, Sweeney J did not expressly deal with the question whether s. 19(3)'s requirement of actual or constructive knowledge was satisfied. It is, however, suggested that his Honour treated that issue as resolved in favour of Nintendo by his determination of a closely related issue to which detailed reference is made below, namely, the question of actual or constructive knowledge for the purposes of s. 20 of the Act. If that view of Sweeney J's judgment is accurate, his Honour's comments about s. 20 arguably indicate that he thought that, once it was found that the sales of the Spica Entertainment Units constituted commercial exploitation of the Nintendo layout, all that was necessary to satisfy s. 19(3)'s requirement of actual or constructive knowledge was that Centronics knew or ought reasonably to have known that it was not licensed by Nintendo. That is the construction of s. 19(3) for which Nintendo contends. In the Full Court of the Federal Court, Northrop J proceeded on an assumption that it was correct. In view of their conclusion about the effect of s. 7 of the Act, Beaumont and Burchett JJ found it unnecessary to consider the effect of s. 19(3).

As a matter of mere language, the requirement that an alleged infringer "knows or ought reasonably to know, that he or she is not licensed by the owner of [the relevant EL] right" is ambiguous. The construction for which Nintendo contends is based upon reading the words "the owner" in the requirement as a specific designation of a particular person, that is to say, as if they were the equivalent of the name of the actual person who is ultimately identified as "the owner". The words "the owner" can, however, be at least as readily understood not as a specific designation of a particular person in that sense ("the specific designation construction") but as a non-specific reference to a possessor of the attributes which constitute ownership of the relevant right. If the words are understood in that more general and innominate sense ("the non-specific construction"), the requirement of actual or constructive knowledge on the part of the alleged infringer that he or she is not licensed by

"the owner" - whoever that may be - involves, in a case where X is ultimately identified as the owner, more than actual or constructive knowledge of the mere fact that he or she is not licensed by X. The requirement will not be satisfied unless, at the time of the relevant act of commercial exploitation of the layout, the alleged infringer knows or ought reasonably to know that he or she is not licensed by any person satisfying the description of "the owner of [the relevant EL] right". That being so, actual or constructive knowledge that he or she is not licensed by X would satisfy the requirement only if it were accompanied by actual or constructive knowledge that X is in fact the owner of that EL right. For the reasons which follow, the non-specific construction is the preferable one.

Section 19(3)'s requirement of actual or constructive knowledge is confined to those cases where the alleged infringement of an EL right in an eligible layout is "secondary" or "indirect" in the sense that it does not involve the copying of the layout itself or the making of an integrated circuit in accordance with the layout. Cases involving "primary" or "direct" infringement, either by a copying of the layout or by a making of an integrated circuit in accordance with the layout, fall within either s. 19(1) or s. 19(2). The effect of those subsections is that there is infringement of the relevant EL right if the copying or making was without the licence of the owner of that right regardless of whether there was any actual or constructive knowledge of the lack of such a licence. The legislative policy underlying s. 19(1) and s. 19(2) would seem to be the understandable one that a person who, for other than a permitted purpose (See, in particular, the Act, s. 21 (private use), s. 22 (research or teaching purposes) and s. 23 (evaluation or analysis), copies a circuit layout made by another or makes an integrated circuit in accordance with such a layout should be required to take whatever steps are necessary to identify, and obtain a licence from, the owner of relevant EL rights in the layout.

Not surprisingly, the legislative policy to be discerned in s. 19(3) with respect to cases involving commercial dealing with an existing original or copy layout or an existing integrated circuit is somewhat different. Under the Act, ownership of the EL rights in an eligible layout is acquired by the maker without any need to observe the requirements of a registration process (s. 16). A person who deals commercially with an original layout which he or she has acquired in good faith from another may neither know nor have the means of ascertaining that the person from whom he or she acquired it did not have the EL rights in it. *A fortiori*, a person who deals commercially with an existing copy of a protected layout (i.e., an eligible layout which is within its protection period and whose owner has the exclusive rights contained in s. 17) or an existing integrated circuit made in accordance with the layout may do so in circumstances where he or she neither knows nor has the means of ascertaining that the original layout either exists or is protected by the Act. Generally speaking, the Commonwealth intellectual property legislation in force at the time when the Act was enacted specified some significant requirement of actual or constructive knowledge as a condition of either infringement or liability in cases of alleged infringement by mere commercial dealing (See, e.g., Designs Act 1906 (Cth), s. 32B (2); Trade Marks Act 1955 (Cth), s. 99(1); Patents Act 1952 (Cth), s. 124 (now Patents Act 1990 (Cth), s. 123); Copyright Act 1968 (Cth), ss. 37 and 38 (but note the effectiveness of s. 38 of the Copyright Act is open to some question by reason of seeming errors in drafting)). Clearly enough, it was the legislative intent that s. 19(3)'s requirement of actual or constructive knowledge should provide a significant degree of protection of the alleged infringer in such cases. The specific designation construction of the requirement would go a long way towards defeating that legislative intent and rendering the protection of the requirement illusory. Thus, its effect would be that, provided the alleged infringer knew or ought reasonably to have known that he or she

was not licensed by X, the requirement of actual or constructive knowledge would afford no protection at all if X happened to be the owner of the EL right to exploit the relevant layout commercially in Australia notwithstanding that the alleged infringer by commercial dealing neither knew nor could reasonably be expected to have known that there was any connection at all between X and the layout.

Moreover, the specific designation construction of the requirement would give it a somewhat arbitrary and irrational character. The mere fact that an alleged infringer knows or ought reasonably to know that he or she is not licensed by a particular named person is likely to be of little or no relevance to questions either of fault or of meaningful knowledge or notice unless the alleged infringer also knows or ought reasonably to know that that particular person is the owner of the EL right to exploit the particular layout commercially in Australia. Much to be preferred is the wider and non-specific construction of the words "the owner" which has the result that the requirement is one of actual or constructive knowledge by an alleged infringer that he or she is unauthorised to exploit the protected layout commercially in Australia in the sense that he or she has actual or constructive knowledge of the existence of the layout and of EL rights in it and of the fact that he or she is not licensed by the owner of those rights, whoever that may be.

It follows that s. 19(3)'s requirement of actual or constructive knowledge was not satisfied in the present case by the mere fact that, (as was conceded) Centronics knew, at the time of the acts of alleged infringement, that it was not licensed by Nintendo to exploit the Nintendo layout commercially in Australia. It was necessary that it also be established that Centronics also knew or ought reasonably to have known, at that time, that the Nintendo layout existed and that Nintendo was the owner of the exclusive EL rights in it. The learned trial Judge's findings in relation to s. 20 disclose that his Honour was satisfied that Centronics did, in fact, have such constructive knowledge. His Honour's satisfaction in that regard was justified by the material in evidence before him, particularly by the content of correspondence from Nintendo's solicitors to Centronics. Indeed, it would seem to have effectively been conceded by Centronics at the trial that, at the time of the alleged acts of infringement, it had at least constructive knowledge of the admitted existence of Nintendo's EL rights in the Nintendo layout.

Ultimately, Centronics' argument that s. 19(3)'s requirement of actual or constructive knowledge was not satisfied in the present case rests upon a contention that the requirement cannot be satisfied unless an alleged infringer knows or ought reasonably to know that his or her conduct involves commercial exploitation of the relevant eligible layout. If that contention were accepted, the result would be that it did not suffice that the sale by Centronics of the Spica Entertainment Units constituted unauthorised commercial exploitation of the Nintendo layout during the protection period and that Centronics, at relevant times, knew or ought reasonably to have known of the existence of the Nintendo layout, of Nintendo's EL rights in it and of the absence of any licence from Nintendo. It would also be necessary that Centronics knew or ought reasonably to have known that its sale of the Spica Entertainment Units actually constituted commercial exploitation of the Nintendo layout. The simple answer to that contention and the argument based upon it is that the contention derives no support at all from the words of s. 19(3).

As has been seen, s. 19(3) contains a basic provision to the effect that unlicensed commercial exploitation of an eligible layout during the protection period constitutes infringement of the EL right to exploit the layout commercially in Australia. That basic provision is qualified by an express requirement of actual or constructive knowledge on the part of the alleged

infringer of a particular identified matter, namely, "that he or she is not licensed by the owner" of that EL right. There is no room for the implication within that express requirement of a further requirement that the alleged infringer knows or ought reasonably to know that his or her conduct does in fact involve commercial exploitation of the protected layout. The existence of the express requirement of actual or constructive knowledge strongly militates against the implication of such a further requirement in the basic provision. In any event, the words in which the basic provision is expressed, like the words of the express requirement, simply leave no room for the implication of such a further requirement. Nor is there any compelling consideration of either context or discernible legislative policy which dictates that such a further requirement be satisfied before any infringement by commercial exploitation can be established. To the contrary, there are some categories of relevant commercial exploitation in relation to which it is difficult to see any convincing reason for such a further requirement. For example, there is no convincing reason why a person who has actual or constructive knowledge of the existence of an eligible layout and of EL rights in it, of the identity of the owner of those rights and of the fact that he or she is not licensed by that owner should not be required to exercise whatever diligence is necessary to ensure that the immediate object of his or her commercial dealing in Australia is not that very layout.

It is true that s. 19(3)'s requirement, being directed generally to cases of commercial exploitation of a protected layout, does not address the more particular question of what, if any, further and special requirement of knowledge is necessary in those cases where the commercial exploitation of the layout is by some dealing with an integrated circuit made in accordance with it. That more particular question is addressed by the current s. 20 of the Act which was substituted for the original s. 20 by the Law and Justice Legislation Amendment Act 1990 (Cth) which became operative on 21 December 1990, that is to say, some two weeks after the institution of the present proceedings. As will be seen, there is much to be said for the view that, prior to the introduction of the new s. 20, the Act failed adequately to address that more particular question. That failure does not, however, provide an adequate basis for attributing to the general provisions of s. 19 an operation which the words of that section do not support.

In the result, Centronics has failed to make good its argument that it was entitled to succeed in the Courts below on the ground that s. 19(3)'s requirement of actual or constructive knowledge was not satisfied.

Section 20 of the Act

Section 20 of the Act excludes what is described (By the heading of s. 20 (not "part of the Act": Acts Interpretation Act 1901 (Cth), s. 13(3)) as "Innocent commercial exploitation" from conduct which might otherwise constitute infringement of EL rights. In its present form ("the current s. 20"), the section is expressly confined to the commercial exploitation of an integrated circuit made in accordance with an eligible layout in which EL rights subsist. It reads:

> (1) The EL rights in an eligible layout are not infringed by a person who commercially exploits, or authorises the commercial exploitation of, an unauthorised integrated circuit in Australia, being a circuit made in accordance with the layout, if, at the time when the person acquired the circuit, the person did not know, and could not reasonably be expected to have known, that the circuit was unauthorised.
>
> (2) Where a person referred to in sub-section (1) becomes aware, or could reasonably be expected to have become aware, that the integrated circuit is unauthorised, that subsection ceases to apply to any subsequent commercial exploitation of the circuit, unless the person pays to the owner or exclusive licensee of the EL rights in the layout such equitable remuneration as is agreed, or as is determined by a method agreed, between the person and the

owner or exclusive licensee or, in default of agreement, as is determined by the Federal Court of Australia on application made by either of them.

(3) In this section:

'unauthorised', in relation to an integrated circuit made in accordance with an eligible layout, means made without the licence of the owner of the EL rights in the layout.

The legislative policy underlying the current s. 20 of the Act is not difficult to discern. It was to make special provision for circumstances in which it would be unjust to impose liability for infringement on a person who innocently acquires and subsequently deals with an unauthorised integrated circuit. One can readily envisage circumstances in which an ordinary person who innocently acquires, and subsequently commercially deals with, an item of electronic equipment would have no means of knowing or ascertaining that some concealed integrated circuit in the article was an unauthorised copy of an eligible circuit layout in which EL rights subsist. An innocent retail purchaser of one of the Spica Entertainment Units involved in the present case who resold the unit a few days before the institution of the present proceedings would provide an obvious example. Even if such a purchaser had dismantled the unit and managed to identify the ROM chip incorporating the Spica integrated circuit, careful examination of the chip with the strongest of magnifying glasses would have disclosed nothing which suggested that the integrated circuit was made in accordance with the Nintendo layout. In that regard, it is relevant to note that the possible need to make special provision to cover the case of innocent commercial dealing with an unauthorised integrated circuit was recognised by Art. 6(4) of the International Treaty which, after referring to an earlier paragraph of the Treaty (Art. 6(1)(a)(ii) relating to commercial dealing), provided:

no Contracting Party shall be obliged to consider unlawful the performance of any of the acts referred to in that paragraph in respect of an integrated circuit incorporating an unlawfully reproduced layout-design (topography) where the person performing or ordering such acts did not know and had no reasonable ground to know, when acquiring the said integrated circuit, that it incorporates an unlawfully reproduced layout-design (topography).

If s. 20 in its current form had been applicable to the present case, there would be an unresolved issue of fact which would need to be resolved before it could be determined whether the section provided a defence to Nintendo's claim that Centronics had infringed its EL rights in the Nintendo layout. At the time Centronics acquired the Spica Entertainment Units, the substantive provisions of the Act had not come into operation. This means that, at that time, there was no owner of "the EL rights in an eligible layout". Obviously, Centronics did not know and could not reasonably be expected to have known, at that time, that the Units contained an integrated circuit "made in accordance with an eligible layout ... without the licence of the owner of [that right]" (See current s. 20(3) (above)). The case accordingly would come within sub-section (1) of the current s. 20 unless sub-section (2)'s requirement of actual or constructive knowledge had become satisfied by the time of the alleged acts of infringement with the consequence that, in the words of sub-section (2), sub-section (1) had "cease[d] to apply". In circumstances where the expert evidence led by Centronics at the trial supported a negative answer to the question whether the Spica integrated circuit had been made in accordance with the Nintendo layout, it may well be arguable that Centronics neither became aware nor could reasonably be expected to have become aware that the integrated circuit in the Spica Entertainment Unit was "unauthorised" until some time after the institution of the proceedings. It is true that Sweeney J, at first instance, found that Centronics "could reasonably be expected to have known that the circuit was unauthorised from the date on which the Act came into operation, 1 October 1990". That finding was, however,

flawed by an apparent failure to appreciate that actual or constructive knowledge that the Spica circuit was "unauthorised" involved more than actual or constructive knowledge that Nintendo was the owner of the EL rights in the Nintendo layout and that Centronics was not licensed by Nintendo. It also involved actual or constructive knowledge of a further matter, namely, that the Spica circuit had been made in accordance with Nintendo's layout. Careful reading of Sweeney J's judgment indicates that his Honour did not address the question whether, at the time of the alleged acts of infringement, Centronics had actual or constructive knowledge of that further matter.

However, as has been mentioned, s. 20 was not enacted in its current form until after the institution of the present proceedings. The significance of the substantial difference between the original and current forms of the section was overlooked before Sweeney J where the case was conducted and decided on the basis that the question of infringement fell to be determined by reference to the section in its current form. The members of the Full Court were conscious of the fact that the current s. 20 had not been introduced until after the alleged acts of infringement and the commencement of the proceedings. They concluded that regard should be had to the section in its original form. That conclusion was clearly correct since it is to be presumed that it was not the legislative intent that the substitution of the new s. 20 should extinguish rights of action for infringement which had already accrued under the Act in its earlier form (See Acts Interpretation Act 1901 (Cth), s. 8(c); and see *Esber v. The Commonwealth* [1992] 174 CLR 430 at 440.). In the Full Court, Beaumont and Burchett JJ's conclusion about the effect of s. 7 of the Act made it unnecessary to address the question whether Centronics had a good defence under the original s. 20. The third member of the Full Court, Northrop J, did address that question and decided that it should be answered in favour of Centronics. His Honour's decision in that regard was, however, based to a significant extent upon a view that the effect of the pleadings was that Nintendo was precluded from relying on s. 20(2) to take the case out of s. 20(1). Before this Court, Centronics has expressly conceded that the case had been fought on the common basis that the applicability and effect of s. 20(2) were squarely in issue and that, that being so, Nintendo is entitled to rely upon s. 20(2) in this Court.

In its original form ("the original s. 20"), s. 20 provided as follows:

> (1) The EL rights in an eligible layout are not infringed by a person who commercially exploits, or authorises the commercial exploitation of, the layout in Australia if, at the time when the person acquired the layout, the copy of the layout or the integrated circuit made in accordance with the layout, as the case may be, the person did not know, and could not reasonably be expected to have known, that EL rights subsisted in the layout.
>
> (2) Where a person referred to in subsection (1) becomes aware, or could reasonably be expected to have become aware, that EL rights subsist in the layout, that subsection ceases to apply to any subsequent commercial exploitation of the layout, unless the person pays to the owner or exclusive licensee of those rights such equitable remuneration as is agreed, or as is determined by a method agreed, between the person and the owner of exclusive licensee or, in default of agreement, as is determined by the Federal Court of Australia on application made by either of them.

As can be seen, the original s. 20 was not a special provision directed to the particular case of alleged infringement of the EL rights in an eligible layout by commercial dealing with an integrated circuit made in accordance with the layout. It was directed generally to commercial exploitation of an eligible layout by any relevant commercial dealing whether it be with the layout or a copy of the layout or an unauthorised integrated circuit. More important for present purposes, the original s. 20 contained no mention of actual or constructive knowl-

edge that an integrated circuit was "unauthorised". Its focus was solely on actual or constructive knowledge "that EL rights subsisted [subsist in sub-section (2)] in the layout". Examination of the context provided by the whole of the section makes it quite clear that the reference to "the layout" in that phrase in both sub-sections was to the protected layout. That means that, in a case such as the present where the alleged infringement is by commercial dealing with an integrated circuit made in accordance with a particular protected layout, the original s. 20's requirement of actual or constructive knowledge was satisfied if the alleged infringer knew or ought reasonably to have known that EL rights existed in that layout. In such a case, the plain effect of the words of the original s. 20 was that it mattered not, for the purposes of the section, that the alleged infringer neither knew nor could reasonably be expected to know that the integrated circuit was in fact made in accordance with the layout and was therefore "unauthorised".

An argument was advanced on behalf of Centronics to the effect that the present case did not come within the original s. 20(2) unless, at the time of the acts of alleged infringement, Centronics had actual or constructive knowledge "of the existence of EL rights [of Nintendo] in the [Spica] integrated circuit". That argument must, however, be rejected. As has been seen, all that the words of the original s. 20(2) required was actual or constructive knowledge that EL rights subsisted in the protected layout which had allegedly been infringed. That is to say, in the present case, that EL rights subsisted in the Nintendo layout. Nor is it possible to read into the original s. 20(2) an implied further requirement of actual or constructive knowledge that an integrated circuit is unauthorised. Once it is appreciated that the original s. 20 applied indifferently to all cases of alleged infringement by commercial exploitation, the above-mentioned reasons for rejecting the implication of such a further requirement of actual or constructive knowledge in s. 19(3) are equally applicable to preclude its implication in the original s. 20(2). It is true that the result is that, during the period from its commencement until the substitution of the current s. 20, the Act imposed liability for infringement in some hard cases, being cases in respect of which the current s. 20 provides complete or limited protection (But note that s. 27(3) of the Act then, as now, restricted liability for infringement to an account of profits in respect of the infringement if it was "established that ..... the defendant was not aware, and had no reasonable grounds for suspecting, that the act constituting the infringement was an infringement". It is not necessary to consider what practical operation s. 27(3) will have in the case of an act which constitutes an infringement by reason of s. 19(3)). That consideration does not, however, justify a reframing of the original s. 20 by the Courts to produce the result that it encompassed all the cases to which the current section is applicable.

When one turns to apply the original s. 20 to the facts of the present case, the differences between the requirements of actual or constructive knowledge in the original and the current forms of the section are not of critical significance in so far as the first (or s. 20 (1)) stage is concerned. As has been said, the Spica Entertainment Units were acquired by Centronics before the commencement of the Act. That being so, Centronics could not, at that time, have known or been reasonably expected to know that EL rights subsisted in the Nintendo layout. It follows that the case *prima facie* falls within sub-section (1) of the original s. 20. It is when one comes to the second (or s. 20(2)) stage that the differences between the original form and the current form of s. 20 assume critical significance for the purposes of the present case. As has been seen, it remains undetermined whether, at the time of the alleged acts of infringement, Centronics had acquired the actual or constructive knowledge which would be necessary to bring the current s. 20(2) into operation, namely, actual or constructive knowledge that the Spica integrated circuit was "unauthorised". In contrast, as has also

been seen when considering the operation of s. 19(3), the learned trial Judge was justifiably satisfied that Centronics had, at that time, the actual or constructive knowledge necessary to satisfy the requirement of the original s. 20(2), namely, actual or constructive knowledge that EL rights subsisted in the Nintendo layout. It follows that, at the time of the acts of alleged infringement in the present case, the original sub-section (2) of s. 20 had been activated. The result of that was that s. 20(1) "cease[d] to apply to ... commercial exploitation of the layout" unless Centronics had paid to Nintendo the "equitable remuneration" referred to in s. 20(2).

It was argued on behalf of Centronics that, even if the case fell within s. 20(2) at the time of the alleged acts of infringement, the effect of that sub-section was merely to render Centronics liable to pay the relevant "equitable remuneration". The overall effect of s. 20 (in both its original and current form) was and is, according to the argument, to create a licensing scheme under which innocently acquired infringing articles could be dealt with commercially subject only to the obligation, once actual or constructive knowledge was acquired, to pay the applicable licence fee. Accordingly, Centronics' acts of commercial dealing with the Spica Entertainment Units after it had obtained the relevant actual or constructive knowledge did not constitute infringement of Nintendo's EL rights notwithstanding that it had neither paid nor offered to pay any licence fee pursuant to s. 20(2). Yet again, the answer to the argument is that the words which the Parliament has used do not support it.

Like the current section, the original s. 20(2) provided, in unambiguous terms, that, where the relevant actual or constructive knowledge existed, sub-section (1) "ceases to apply to any subsequent commercial exploitation ... unless the person pays" the relevant remuneration. The plain effect of that was that s. 20(1) did not apply to any acts of commercial exploitation between the acquisition of the relevant actual or constructive knowledge and the payment of the relevant remuneration. That can only mean that, during the period, s. 20 did not apply to prevent the commercial exploitation of an innocently acquired but unauthorised integrated circuit from constituting infringement of the EL rights in the eligible layout in accordance with which the integrated circuit was made.

In the present case, the acts of alleged infringement upon which Nintendo relies all occurred after Centronics possessed the actual or constructive knowledge referred to in the original s. 20(2). At the time of those acts, Centronics had neither paid nor acknowledged any liability to pay the "equitable remuneration" referred to in the sub-section. It still has not done so. It follows that s. 20(1) had, at that time, ceased to apply to those acts of alleged infringement and that Centronics' defence based on s. 20 fails.

Constitution, s. 51(xxxi)

As a defence of last resort, Centronics invoked the implied guarantee of just terms contained in s. 51(xxxi) of the Constitution. It was submitted on its behalf that, to the extent that the Act operated to confer, upon Nintendo, the exclusive right of commercial exploitation of the Spica circuits contained in the Entertainment Units which were already owned by Centronics at the commencement of the Act, the Act purported to effect an "acquisition of property" on other than the "just terms" which s. 51(xxxi) guarantees. Accordingly, the Act was, at least to that extent, beyond the legislative powers of the Commonwealth. There are two short answers to that submission. The first arises from the nature of the constitutional grant of legislative power pursuant to which the Act was enacted. The second arises from the nature of the Act itself.

It is well settled that s. 51(xxxi)'s indirect operation to reduce the content of other grants of legislative power is through the medium of a rule of construction, namely, that "it is in accordance with the soundest principles of interpretation to treat" the conferral of "an express power, subject to a safeguard, restriction or qualification, to legislate on a particular subject or to a particular effect" as inconsistent with "any construction of other powers conferred in the context which would mean that they included the same subject or produced the same effect and so authorized the same kind of legislation but without the safeguard, restriction or qualification" (*Attorney-General (Cth) v. Schmidt* [1961] 105 CLR 361 at 371-372 per Dixon CJ). That operation of s. 51(xxxi) to confine the content of other grants of legislative power, being indirect through a rule of construction, is subject to a contrary intention either expressed or made manifest in those other grants. In particular, some of the other grants of legislative power clearly encompass the making of laws providing for the acquisition of property unaccompanied by any *quid pro quo* of just terms. Where that is so, the other grant of legislative power manifests a contrary intention which precludes the abstraction from it of the legislative power to make such a law (See, generally, *Mutual Pools & Staff Pty. Ltd. v. The Commonwealth* [1994] 68 ALJR 216 at 221, 225, 230, 248-249; 119 ALR 577 at 586-587, 592, 599, 625-626; *Re DPP; Ex parte Lawler* [1994] 68 ALJR 289 at 290-291, 292, 295, 301-302; 119 ALR 655 at 657-658, 659, 663, 673; *Health Insurance Commission v. Peverill* [1994] 68 ALJR 251 at 266; 119 ALR 675 at 698; *Georgiadis v. AOTC* [1994] 68 ALJR 272 at 275; 119 ALR 629 at 635.).

The grant of Commonwealth legislative power which sustains the Act is that contained in s. 51(xviii) of the Constitution with respect to "Copyrights, patents of inventions and designs, and trade marks" (Cf., e.g., *R. v. Brislan Ex parte Williams* [1935] 54 CLR 262; *Jones v. The Commonwealth* [No.2] [1965] 112 CLR 206). It is of the essence of that grant of legislative power that it authorises the making of laws which create, confer, and provide for the enforcement of, intellectual property rights in original compositions, inventions, designs, trade marks and other products of intellectual effort. It is of the nature of such laws that they confer such rights on authors, inventors and designers, other originators and assignees and that they conversely limit and detract from the proprietary rights which would otherwise be enjoyed by the owners of affected property. Inevitably, such laws may, at their commencement, impact upon existing proprietary rights. To the extent that such laws involve an acquisition of property from those adversely affected by the intellectual property rights which they create and confer, the grant of legislative power contained in s. 51 (xviii) manifests a contrary intention which precludes the operation of s. 51(xxxi).

The cases also establish that a law which is not directed towards the acquisition of property as such but which is concerned with the adjustment of the competing rights, claims or obligations of persons in a particular relationship or area of activity is unlikely to be susceptible of legitimate characterisation as a law with respect to the acquisition of property for the purposes of s. 51 of the Constitution (See e.g., *Australian Tape Manufactures Association Ltd. v. The Commonwealth* [1993] 176 CLR 480 at 510; *Mutual Pools & Staff Pty. Ltd. v. The Commonwealth* [1994] 68 ALJR at 222, 225, 231; 119 ALR at 587, 592, 600; *Re DPP; Ex parte Lawler* [1994] 68 ALJR at 296; 119 ALR at 665; *Health Insurance Commission v. Peverill* [1994] 68 ALJR at 254; 119 ALR at 680-681; *Georgiadis v. AOTC* [1994] 68 ALJR at 275-276; 119 ALR at 635.). The Act is a law of that nature. It cannot properly, either in whole or in part, be characterised as a law with respect to the acquisition of property for the purposes of that section. Its relevant character is that of a law for the adjustment and regulation of the competing claims, rights and liabilities of the designers or first makers of original circuit layouts and those who take advantage of, or benefit from, their work. Consequently, it is beyond the reach of s. 51(xxxi)'s guarantee of just terms.

Conclusion and Orders

It follows that the sale and offering for sale by Centronics of the Spica Entertainment Units in the period between 1 October 1990 and 5 December 1990 constituted infringement of Nintendo's EL rights in the Nintendo layout and that the appeal must succeed. Before turning to a consideration of the orders which should be made to dispose of the appeal, it is necessary to refer to one additional matter.

In the closing minutes of argument in this Court, senior Counsel for Centronics stated that a document produced by Nintendo in the Full Court of the Federal Court, but apparently not introduced into evidence, indicated that Centronics' express admission in the pleadings that Nintendo had, at relevant times, been the owner of EL rights in the Nintendo layout was mistaken and that those EL rights had in fact been held by some associated company and not been transferred to Nintendo until some days after the institution of the proceedings. It was, however, as senior Counsel recognised, far too late for Centronics to withdraw the formal admission on the basis of which the case had been fought and determined in the Courts below. Quite apart from the question of the authority of this Court to receive fresh evidence (See *Mickelberg v. The Queen* [1989] 167 CLR 259.), the point, if soundly based (which is not conceded by Nintendo) and raised at an appropriate time, might well have been overcome by amendment of pleadings and addition or joinder of the associated company as a party. In that regard, it is relevant to note that it is common ground that the evidence at first instance established "that the layout was created for, and on the instructions of, Nintendo". It is unnecessary to determine whether, as senior Counsel suggested, it would have been permissible for Centronics to rely on the point and lead evidence about it if we had been of the view that the case should be remitted to the Federal Court for further consideration in relation to the questions of actual or constructive knowledge under s. 19(3) or s. 20(2). However, since the matter has been raised, it may be arguable that account should be taken of it in the framing of any order for damages or an account of profits to eliminate any possibility that Centronics might be required to make a double payment in the event that proceedings are initiated by the associated company in respect of the relevant acts of infringement of the EL rights in the Nintendo layout.

The orders made by the learned trial Judge against Centronics and its three directors in relation to the infringement of the EL rights in the Nintendo layout were as follows:

1. The respondents and each of them be restrained from-

   (a) selling, letting for hire or distributing by way of trade;

   (b) offering or exposing for sale, hire or other distribution by way of trade; or

   (c) importing for the purpose of sale, letting for hire or other distribution by way of trade;

   whether as part of Spica video game consoles or otherwise, PPU chips in the form of the UMC PPU chip a photographic representation of the integrated circuit of which is Exhibit TR-1 herein or otherwise howsoever infringing the applicant's EL rights in the circuit layout a photographic representation of which is Exhibit TR-2 herein.

2. The respondents within seven days of the date hereof-

   (a) deliver up to the applicant each of the UMC PPU chips referred to in paragraph 1 hereof;

(b) make file and serve an affidavit verifying that all such UMC PPU chips have been delivered up as aforesaid.

3. There be an inquiry as to damages or at the applicant's option an account of profits made by the respondents and each of them by infringement of the applicant's said EL rights and payment of the sum found due.

4 (a) The respondents within fourteen days of the date hereof make file and serve an affidavit setting out details of all sales made of Spica video games units containing the UMC PPU chip referred to in paragraph 1 hereof;

(b) within fourteen days thereafter, the applicant make its election referred to in paragraph 3 hereof and communicate the same to the respondents;

(c) the applicant have liberty to apply thereafter as to the conduct of the said enquiry or account (as the case may be).

.....

7. The respondents pay the applicant's costs of the proceeding including any reserved costs.

The propriety of those particular orders was not discussed in the course of argument. Clearly, they give rise to some questions. One such question is whether orders 1. and 2. should be adjusted to allow for the possibility of determination and payment (by Centronics) of equitable remuneration pursuant to s. 20(2) in respect of the Spica Entertainment Units which remain in Centronics' possession. Another question is whether Nintendo is entitled (at its option) to an order for an inquiry as to damages at this stage in circumstances where s. 27(3) of the Act precludes such an order if it is "established .... that, at the time of the infringement, [Centronics] was not aware, and had no reasonable grounds for suspecting, that the act constituting the infringement was an infringement". To date, there has been no specific finding on the question whether that has or has not been "established".

There remains for consideration the question of costs. The order for costs in Nintendo's favour which was made by Sweeney J should be restored and Centronics and the three respondent directors should also pay Nintendo's costs of the appeal to the Full Court of the Federal Court. The position is, however, somewhat different in relation to the costs of the appeal to this Court. On the application for special leave to appeal, it became apparent that the monetary amount involved in the case is small and that the issues on an appeal to this Court would turn largely upon questions of construction which were important to the industry of which Nintendo is a prominent member but which were of little significance to Centronics and the respondent directors except to the extent that they govern liability in the present proceedings. The Court made clear to senior Counsel for Nintendo that special leave to appeal was granted on the basis that, if Nintendo was ultimately successful, the ordinary order for costs might not be made. Having regard to all the circumstances, there should be no order in respect of the costs of the appeal to this Court.

The appropriate course at this stage is to make orders allowing the appeal and refusing an application by Centronics for leave to cross-appeal relating to costs. Otherwise, the matter should be stood over so that the parties will have an opportunity either to agree on the form of any further orders or to make written submissions in relation thereto. If Nintendo seeks, and Centronics resists, an order for damages (as distinct from an order for an account of profits), it would seem necessary that the further orders provide that the matter be remitted to the Federal Court for the resolution of the above-mentioned issue under s. 27(3). In that event, it will be for the Federal Court to decide whether, for the purposes only of that issue, Centronics should be permitted to withdraw its admission and lead evidence about

the ownership of EL rights in the Nintendo layout at the time when the proceedings were instituted. It will also be a matter for the Federal Court to determine the question of the costs of any such further proceedings before it.

Dawson J:

I agree with the orders proposed by Mason CJ, Brennan, Deane, Toohey, Gaudron and McHugh JJ and with their reasons for judgment, save for the comments which I wish to make upon the question of the acquisition of property under s. 51(xxxi) of the Constitution which was raised by the respondents.

The respondents' contention was that the Circuit Layouts Act 1989 (Cth) ("the Act") purported to confer upon the appellant, Nintendo Company Ltd. ("Nintendo"), the exclusive right to exploit commercially the integrated circuits in question which, at the time the Act came into force, were the property of the first respondent, Centronics Systems Pty. Ltd. ("Centronics"). By so providing, the respondents contend, the Act purported to effect a compulsory acquisition of those rights by Nintendo from Centronics upon terms which were not just.

It is, I think, possible to put to one side various difficulties in the way of the respondents' argument (such as the possibility that Nintendo previously had rights under the Copyright Act 1968 (Cth)) and to concentrate upon the terms of s. 51(xxxi).

That paragraph confers a legislative power upon the Commonwealth with respect to "the acquisition of property on just terms from any State or person for any purpose in respect of which the Parliament has power to make laws". The power conferred is subject to two limitations, The first is that the acquisition must be on just terms. The second is that the property must be acquired for a purpose in respect of which the Parliament has power to make laws.

It is the second limitation that is relevant in the present case. The acquisition which is alleged is not an acquisition by the Commonwealth but by a third party, namely, Nintendo. It is now settled that s. 51(xxxi) extends to compulsory acquisition by a third party (*Jenkins v. The Commonwealth* [1947] 74 CLR 400 at 406; *McClintock v. The Commonwealth* [1947] 75 CLR 1 at 23, 36; *P.J. Magennis Pty. Ltd. v. The Commonwealth* [1949] 80 CLR 382 at 401-402, 411, 423; *Trade Practices Commission v. Tooth & Co. Ltd.* [1979] 142 CLR 397 at 427, 451-452; *Australian Tape Manufacturers Association Ltd. v. The Commonwealth* [1993] 176 CLR 480 at 510-511, 526; *Mutual Pools & Staff Pty. Ltd. v. The Commonwealth* [1994] 68 ALJR 216 at 237; 119 ALR 577 at 608.) but, of course, only if the requirements of the paragraph are met. Thus, if property is to be validly acquired by a third party under legislation reliant upon s. 51(xxxi) for its validity, the property must be acquired for a purpose in respect of which the Commonwealth has power to make laws. It is the intended use or application of the property which is significant. That was established in *W.H. Blakeley & Co. Pty. Ltd. v. The Commonwealth* when this Court observed in relation to the acquisition of land ([1953] 87 CLR 501 at 518-519. See also *Attorney-General (Cth) v. Schmidt* [1961] 105 CLR 361 at 373-373; *Mutual Pools & Staff Pty. Ltd. v. The Commonwealth* [1994] 68 ALJR at 236-237; 119 ALR at 608-609.):

> It seems to be plain enough that the Constitution, in using the word 'purpose', is speaking of the object for which the land is needed. The word itself does not refer to any power or powers defined in the various paragraphs of ss. 51 or 52 of the Constitution or elsewhere conferred; it is referring to the object for which the land is acquired. That object, however, must be one falling within the Commonwealth's power to make laws. It does not matter,

a however, from which of the paragraphs the power to make a law covering that object is derived. No doubt for practical purposes the word 'use' would have the same meaning as the word 'purpose' in par. (xxxi) of s. 51, but of course 'use' must be given a very wide meaning.

It will be apparent that where legislation provides for the acquisition of property by a third party, the property itself will frequently not be acquired for any purpose in respect of which b the Parliament has power to make laws but for the purposes of the third party (*Health Insurance Commission v. Peverill* [1994] 68 ALJR 251 at 261-262; 119 ALR 675 at 690-691.). However, that need not always be the case. An example of property acquired by a third party for the purposes of the Commonwealth is to be found in *McClintock v. The Commonwealth* ([1947] 75 CLR 1.). In that case, at least on one view of the legislation, pineapples were compulsorily acquired from the growers by certain canneries and were processed to provide c pineapple products required to supply the needs of the armed forces. The property acquired was acquired for a purpose in respect of which the Parliament had power to make laws, namely, to feed members of the armed forces, a purpose within the power to make laws with respect to defence.

Where property is acquired by a third party pursuant to Commonwealth legislation, it is more likely that the use or application of the property envisaged by the legislation will not fall d within any head of Commonwealth legislative power. The acquisition of the property will then not be for any purpose in respect of which the Parliament has power to make laws within the meaning of s. 51(xxxi), and legislative power to support the acquisition must be sought elsewhere. This is the situation with many Commonwealth laws which regulate the relationship between private persons. For example, it is the situation with the compulsory e acquisition of property under bankruptcy law. The power to support the acquisition is not found in s. 51(xxxi) but in s. 51(xvii) (bankruptcy and insolvency) (see *Attorney-General (Cth) v. Schmidt* [1961] 105 CLR at 372.). It is the situation with the readjustment of property rights between the parties to a marriage where the legislative power is to be found in s. 51(xxi) (marriage) or 51(xxii) (divorce and matrimonial causes).

Section 51(xxxi) has been treated as abstracting from all other heads of power (including the f incidental power but not s. 122) the power to legislate for the compulsory acquisition of property which is conferred by that paragraph. But that power is limited to the acquisition of property for any purpose in respect of which the Parliament has power to make laws, and that is all that is abstracted from the other heads of power. Thus the power to legislate for the acquisition of property which is not intended to be used or applied for such a purpose may be found in other heads of power (*ibid.*). A succinct explanation was given by Brennan g J in the Federal Court in *Re Tooth & Co. Ltd.* (No.2) ((1978) 34 FLR 112 at 148.):

> Where a federal legislative power extends to the regulation of a relationship between private persons, pl. (xxxi) does not necessarily cut down that power so as to exclude the acquisition of property as a mode of regulation. If the acquisition is intended by the regulating law to be for a purpose referred to in pl. (xxxi) then pl. (xxxi) applies and the validity of the law depends upon its compliance with the requirement of just terms. But if the acquisition is not h intended to be for such a purpose, pl. (xxxi) does not bear upon the law's validity. The validity of such a law is ascertained by inquiring whether it bears the character of a law with respect to some other head of federal legislative power.

In *Australian Tape Manufacturers Association Ltd. v. The Commonwealth* some members of this Court found that it was unlikely that a law would fall within s. 51(xxxi) if it was concerned with "a genuine adjustment of the competing rights, claims or obligations of persons i in a particular relationship or area of activity" ([1993] 176 CLR at 510. See also *Mutual Pools*

& Staff Pty. Ltd. v. The Commonwealth [1994] 68 ALJR at 222, 225, 231; 119 ALR at 587, 592, 600.). That observation is consistent with the view which I have expressed above but it is, I think, necessary to identify with some precision its constitutional foundation. In my view that can only be done by recognizing that s. 51(xxxi) confers a legislative power and that power is confined to "the acquisition of property ... for any purpose in respect of which the Parliament has power to make laws". As we have seen in *W.H. Blakeley & Co. Ltd. v. The Commonwealth*, "purpose" in that context refers to the use or application of the property acquired. Where that use is not for the purposes of the Commonwealth, the observation made in *Australian Tape Manufacturers* will be applicable. Thus a test emerges for determining whether the compulsory acquisition of property by a third party under Commonwealth legislation is or is not concerned with "a genuine adjustment of the competing rights, claims or obligations of persons in a particular relationship or area of activity".

The rights, if any, acquired under the Act by Nintendo in respect of the integrated circuits in question were acquired for Nintendo's own purposes and not for any purpose in respect of which the Parliament has power to make laws. If any compulsory acquisition is involved, it is not an acquisition to which s. 51(xxxi) has any application. The power to support the acquisition is to be found not in s. 51(xxxi) but in s. 51(xviii) (copyrights, patents of inventions and designs, and trade marks).